SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

State of South Carolina

Office of the State Auditor
1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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August 4, 2004

The Honorable Mark Sanford, Governor
and
Mr. Robert A. Faith, Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 2003, was issued by Wilkes & Company, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

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WILKES & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

TIMOTHY C. WILKES, CPA
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CHERYL H. THIGPEN, CPA

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2003, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the South Carolina Department of Commerce - Division of Public Railways are intended to present the financial position, results of operations, and the cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Commerce - Division of Public Railways, enterprise funds of the State. These financial statements do not include other funds or enterprises of the Department or the State or any component units of the State. These financial statements do not purport to, and do not, present fairly the financial position of the State of South Carolina primary government or financial reporting entity or of the South Carolina Department of Commerce as of December 31, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The South Carolina Department of Commerce - Division of Public Railway's financial statements do not adequately classify certain transactions and do not contain certain material disclosures. Also the notes to the financial statements do not disclose material information and accounting policies. These disclosures and information are not in the financial statements because it is exempted from public disclosure pursuant to the South Carolina Freedom of Information Act. Reporting of such information is essential for a fair presentation in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, because of the incomplete presentation and omission of note disclosures discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, in all material respects, the financial position of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2003, and the results of its operations and its cash flows for the year then ended.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Wilke & Company

Columbia, South Carolina
May 27, 2004

SOUTH CAROLINA PUBLIC RAILWAYS

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Management Discussion and Analysis

Our discussion and analysis of SC Public Railways financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2003. Please read these comments in conjunction with the transmittal letter and the financial statements.

Using This Annual Report

This annual report consists of a series of financial statements. The *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Fund Net Assets*; and *Statement of Cash Flows* provide information regarding the activities of SC Public Railways three funds and as a whole.

The three operating divisions (funds) of the SC Public Railways (SCPR) are:

East Cooper & Berkeley Railroad (ECBR)
Port Utilities Commission (PUC) and Port Terminal Railroad (PTR)
Tangent Transportation Company (TTC)

All divisions are enterprise fund activities, and all are reported on the accrual basis. These statements indicate how these functions were financed in the short term and what remains for future spending.

Reporting on the Division of Public Railways as a whole

The divisions are enterprise funds for accounting and reporting purposes. Enterprise funds are used when governmental entities charge customers for services. Enterprise funds very closely resemble the financial statements of business entities.

Financial Highlights

- Operating revenues were up in 2003 over 2002 by $180,682; this was due to a slight increase in the overall carload volumes and general increases in switching charges and freight rates.
- Earnings on Investments were up in 2003 by $4,044 due to maintaining a larger bank balance in 2003 than 2002.

- Operating Grants were down in 2003 by $1,200,000 due to the SCPR not receiving any operating grants in 2003.
- Non-Operating Revenues were down in 2003 by $20,515 due primarily to not receiving any payments from SC Department of Commerce in 2003, which was offset by a higher deficit reimbursement from SC State Ports Authority for the operation of the Port Royal RR.
- Operating Expenses overall were up in 2003 from 2002 by $28,910 or .7 %, which is below the rate of inflation.
- Non-Operating Expenses were down in 2003 from 2002 by $1,022,138 due to not participating in any major industrial development projects.

Capital Assets

- Current Assets were up in 2003 over 2002 by $3,191,117 due to income added by current operations and a reduction in transfers.
- Current liabilities were down in 2003 from 2002 by $310,514 due to:
    - Making a larger payment of the bp incentive at the end of the third quarter of 2003, and a lower overall payment, due to reduced carloads.
    - No accounts payable to CSX Transportation Inc. in 2003 due to the change in the revenue settlement method made November 2002.
- Fixed Assets were down in 2003 from 2002 by $835,843 due to:
    - Cessation of operations on the Port Royal RR all building, land improvements and track in the amount of $701,452 were transferred back to the Ports Authority.
    - Installed a fiber optics line between the PUCC office and the Administrative office building at 540 East Bay St.
    - Replacement of one automobile and three trucks.
    - Disposed of one locomotive and one crane truck.

Economic Factors and Next Year's Operations

- The container traffic at the PUC began to increase late in 2003, and we expect it will continue to grow in 2004. BMW automobile traffic continues its' steady growth.
- We estimate that the PTR operating revenue will remain at approximately the same level in 2004 as 2003.
- Traffic handled by the ECBR will remain at the 2003 level; however, we may see an increase in the CSX trackage rights traffic.
- Public Railways has operated the Port Royal Railroad (PRYL) under an agreement with the SC State Ports Authority since 1985. The Public Railways in conjunction with the Ports Authority decided that it was not feasible to continue; therefore, on November 1, 2003 we ceased operations of the PRYL. Since the PRYL was the only operation under Tangent Transportation Company this corporation will be dissolved and there will not be any future financial reporting by this fund.

The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2).

Table 1

Net Assets

		2003	2002	Amount Change	% Change
Current and other assets, net	$	17,819,215	$ 14,628,098	$ 3,191,117	21.8%
Capital assets, net of depreciation	$	19,468,891	$ 20,304,731	$ (835,840)	-4.1%
Total Assets	$	37,288,106	$ 34,932,829	$ 2,355,277	6.7%
Current liabilities	$	1,158,449	$ 1,468,963	$ (310,514)	-21.1%
Long-term debt outstanding	$	-	$ 16,163	$ (16,163)	-100.0%
Total Liabilities	$	1,158,449	$ 1,485,126	$ (326,677)	-22.0%
Net assets:					
Invested in capital assets, net of debt	$	19,468,891	$ 20,286,594	$ (817,703)	-4.0%
Restricted	$	-	$ 50,000	$ (50,000)	-100.0%
Unrestricted	$	16,660,766	$ 13,111,109	$ 3,549,657	27.1%
Total net assets	$	36,129,657	$ 33,447,703	$ 2,681,954	8.0%

Table 2

Changes in Net Assets

		2003		2002		Amount Change	% Change
Revenues:							
Operating Revenues	$	6,340,899	$	6,160,217	$	180,682	2.9%
Earnings on Investments	$	86,465	$	82,421	$	4,044	4.9%
Operating Grant	$	-	$	1,200,000	$	(1,200,000)	-100.0%
Other Non-Operating Revenues	$	1,155,408	$	1,175,923	$	(20,515)	-1.7%
Total Revenues	$	7,582,772	$	8,618,561	$	(1,035,789)	-12.0%
Expenses:							
Maintenance of Way & Structures	$	993,216	$	913,946	$	79,270	8.7%
Maintenance of Equipment	$	460,734	$	419,432	$	41,302	9.8%
Transportation	$	1,156,128	$	1,469,659	$	(313,531)	-21.3%
General	$	1,458,418	$	1,240,072	$	218,346	17.6%
Other Expenses	$	8,080	$	4,557	$	3,523	77.3%
Total Railroad	$	4,076,576	$	4,047,666	$	28,910	0.7%
Other Non-Operating Expenses	$	122,790	$	1,144,928	$	(1,022,138)	-89.3%
Total Expenses	$	4,199,366	$	5,192,594	$	(993,228)	-19.1%
Net Income Before Transfers	$	3,383,406	$	3,425,967	$	(42,561)	-1.2%
Transfers	$	(701,452)	$	(2,901,672)	$	2,200,220	-75.8%
Net Income	$	2,681,954	$	524,295	$	2,157,659	411.5%

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2003

	PUC-PTR	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 5,914,984	$ 7,523,546	$ -	$ 13,438,530
Accounts receivable	655,332	336,295	-	991,627
Accounts receivable from other division	149,100	19,646	(168,746)	-
Interest receivable	3,317	1,524	-	4,841
Inventories	2,047,048	60,901	-	2,107,949
Prepayments	11,268	-	-	11,268
Total Current Assets	8,781,049	7,941,912	(168,746)	16,554,215
Property, Plant, and Equipment, Net of Accumulated Depreciation	13,624,846	5,844,045	-	19,468,891
Other Assets:				
Servicing rights	-	2,300,000	-	2,300,000
Accumulated amortization - Servicing Rights	-	(1,035,000)	-	(1,035,000)
Total Other Assets	-	1,265,000	-	1,265,000
Total Assets	22,405,895	15,050,957	(168,746)	37,288,106
LIABILITIES				
Current Liabilities:				
Other customer payables	-	825,495	-	825,495
Accounts payable to other division	19,646	149,100	(168,746)	-
Accounts payable - other	35,035	21,769	-	56,804
Payroll taxes withheld and accrued employee benefits	25,178	-	-	25,178
Accrued annual leave and benefits	64,521	82,118	-	146,639
Accrued salaries	71,000	-	-	71,000
Deferred revenue	33,333	-	-	33,333
Total Current Liabilities	248,713	1,078,482	(168,746)	1,158,449
Total Liabilities	248,713	1,078,482	(168,746)	1,158,449
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	13,624,846	5,844,045	-	19,468,891
Unrestricted	8,532,336	8,128,430	-	16,660,766
Total Net Assets	$ 22,157,182	$ 13,972,475	$ -	$ 36,129,657

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	PUC-PTR	TTC	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
Operating Revenues:					
Switching fees	$ 1,819,940	$ -	$ -	$ -	$ 1,819,940
Freight charges, net	-	53,042	3,951,324	-	4,004,366
Use of engine	28,448	-	151,989	-	180,437
Dispatching service	-	-	74,546	-	74,546
Other	261,610	-	-	-	261,610
Total Operating Revenues	2,109,998	53,042	4,177,859	-	6,340,899
Operating Expenses:					
Railway Operating Expenses:					
Maintenance of Way and Structures:					
Depreciation	140,523	-	24,322	-	164,845
Other maintenance of way expenses	285,420	47,280	495,671	-	828,371
Total Maintenance of Way and Structures	425,943	47,280	519,993	-	993,216
Maintenance of Equipment:					
Superintendence	16,293	-	20,737	-	37,030
Depreciation	112,865	-	9,955	-	122,820
Other equipment expenses	181,165	-	119,719	-	300,884
Total Maintenance of Equipment	310,323	-	150,411	-	460,734
Transportation:					
Superintendence	69,892	-	84,093	-	153,985
Yard employees	311,988	12,660	270,127	-	594,775
Depreciation	-	3,858	-	-	3,858
Other transportation expenses	179,443	7,775	216,292	-	403,510
Total Transportation	561,323	24,293	570,512	-	1,156,128
General:					
Administration	516,230	24,302	551,842	-	1,092,374
Insurance	83,227	26,759	99,006	-	208,992
Management fees	-	56,250	-	(56,250)	-
Depreciation	-	-	42,052	-	42,052
Amortization of servicing rights	-	-	115,000	-	115,000
Total General	599,457	107,311	807,900	(56,250)	1,458,418
Total Railway Operating Expenses	1,897,046	178,884	2,048,816	(56,250)	4,068,496

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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	PUC-PTR	TTC	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
Other General Operating Expenses:					
Rent expense for leased road and equipment	$ -	$ 22,000	$ 1,755	$ (22,000)	$ 1,755
Hire of freight cars	-	-	6,325	-	6,325
Total Other General Operating Expenses	-	22,000	8,080	(22,000)	8,080
Total Operating Expenses	1,897,046	200,884	2,056,896	(78,250)	4,076,576
Operating Income (Loss)	212,952	(147,842)	2,120,963	78,250	2,264,323
Nonoperating Revenues (Expenses):					
Rental income	561,986	-	-	(22,000)	539,986
Interest income	45,641	2,667	38,157	-	86,465
Interest expense	(290)	-	(369)	-	(659)
Gain(loss) on sale of fixed assets	14,899	-	(7,502)	-	7,397
Management fees	56,250	-	-	(56,250)	-
Bad debt	-	(18,156)	-	-	(18,156)
Deficit Reimbursement – Ports Authority	-	180,450	-	-	180,450
Industrial Development expenses	(103,975)	-	-	-	(103,975)
Other income, net	351,786	75,058	731	-	427,575
Total Nonoperating Revenues (Expenses)	926,297	240,019	31,017	(78,250)	1,119,083
Income Before Transfers	1,139,249	92,177	2,151,980	-	3,383,406
Transfer from Tangent Transportation to PUC-PTR	489,562	(489,562)	-	-	-
Transfers to SC Ports Auth.	-	(701,452)	-	-	(701,452)
Net Income (Loss)	1,628,811	(1,098,837)	2,151,980	-	2,681,954
Net Assets					
Beginning of Year	20,528,371	1,098,837	11,820,495	-	33,447,703
End of Year	$ 22,157,182	$ -	$ 13,972,475	$ -	$ 36,129,657

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	PUC-PTR	TTC	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
Cash Flows From Operating Activities:					
Cash received from customers	$ 1,941,242	$ 196,539	$ 4,019,552	$ (25,720)	$ 6,131,613
Cash payments to suppliers and employees	(1,612,690)	(386,124)	(1,849,798)	193,970	(3,654,642)
Rents received	561,986	-	-	(22,000)	539,986
Deficit Reimbursements	-	280,000	-	-	280,000
Management fees received	146,250	-	-	(146,250)	-
Other income received	653,928	75,058	1,057	-	730,043
Net Cash Provided (Used) by Operating Activities	1,690,716	165,473	2,170,811	-	4,027,000
Cash Flows From Non-Capital Financing Activities:					
Transfer - TTC	448,315	(448,315)	-	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	448,315	(448,315)	-	-	-
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(220,952)	-	(33,507)	-	(254,459)
Principal paid on note payable	(18,137)	-	-	-	(18,137)
Cash received from sale of fixed assets	51,768	-	2,385	-	54,153
Interest paid	(290)	-	(369)	-	(659)
Net Cash Provided (Used) by Capital and Related Financing Activities	(187,611)	-	(31,491)	-	(219,102)
Cash Flows from Investing Activities:					
Bond principal received from Marlboro County	273,889	-	-	-	273,889
Investment income received	74,000	2,942	49,513	-	126,455
Net Cash Provided (Used) by Investing Activities	347,889	2,942	49,513	-	400,344
Net Increase (Decrease) in Cash and Cash Equivalents	2,299,309	(279,900)	2,188,833	-	4,208,242
Cash and Cash Equivalents, Beginning of Year	3,615,675	279,900	5,334,713	-	9,230,288
Cash and Cash Equivalents, End of Year	$ 5,914,984	$ -	$ 7,523,546	$ -	$ 13,438,530

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	PUC-PTR	TTC	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating income (loss)	$ 212,952	$ (147,842)	$ 2,120,963	$ 78,250	$ 2,264,323
Adjustments to reconcile operating loss to net cash provided by operating activities:					
Depreciation	253,388	3,858	76,329	-	333,575
Depreciation charged to sister division	42,052	-	(42,052)	-	-
Amortization	-	-	115,000	-	115,000
Nonoperating Revenues (Expenses)	866,497	255,508	731	(78,250)	1,044,486
(Increase) decrease in assets:					
Accounts receivable	139,156	217,629	135,660	-	492,445
Accounts receivable from other divisions	20,257	25,720	(19,646)	-	26,331
Inventories	48,464	-	5,694	-	54,158
Prepayments	23,857	8,146	-	-	32,003
Increase (decrease) in liabilities:					
Other customer payables	-	-	(222,920)	-	(222,920)
Accounts payable - CSX	-	-	(70,239)	-	(70,239)
Accounts payable - other	443	(55,160)	(5,222)	-	(59,939)
Accounts payable - other divisions	5,926	(96,384)	86,248	-	(4,210)
Payroll taxes withheld and accrued employee benefits	(3,008)	(5,221)	(22,121)	-	(30,350)
Accrued annual leave	9,732	(40,781)	12,386	-	(18,663)
Accrued salaries	71,000	-	-	-	71,000
Net Cash Provided (Used) by Operating Activities	$ 1,690,716	$ 165,473	$ 2,170,811	$ -	$ 4,027,000

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

NOTE 1 - <u>REPORTING ENTITY</u>

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all its component units. Component units are legally separate organizations for which the elected officials or the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when its issues separate financial statements. That organization is identified herein as a primary entity.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

(1) Determine its budget without another government's having the authority to approve and modify that budget.

(2) Levy taxes or set rates or charges without approval by another government.

(3) Issue bonded debt without approval by another government.

Based on the application of the above criteria, no component units are included in the reporting entity.

The South Carolina Department of Commerce - Division of Public Railways (Division) is part of the State of South Carolina Primary Government. The Division is reported as an enterprise fund in the State’s Comprehensive Annual Financial Report.

Effective July 1, 1993, as part of the Government Restructuring Act of 1993, Code Section 13-1-1310 created the Division of Public Railways (the Division) within the Department of Commerce which is governed by the Secretary of the Department of Commerce.

The Department of Commerce is a cabinet agency operating under the governor and is subject to state laws and regulations. The Division however is not subject to the State Procurement Code or Appropriation Act. Also, the Division is not subject to State Human Resource Regulations. The Secretary of the Department of Commerce is responsible for oversight of the Division. The Division has powers of a body corporate including,

1. The power to sue or be sued, and make contracts.

2. To acquire by purchase or donation and to own, rent, lease, mortgage and dispose of real or personal property.

3. To operate, acquire, construct, maintain and control the tracks and equipment of the Division and be governed by rules and regulations of the Interstate Commerce Commission and its successor, the Surface Transportation Board.

4. To employ and dismiss the employees of the Division and to fix and to pay the compensation thereof.

5. To issue revenue bonds and other obligations, subject to approval by the State Budget and Control Board, to defray the cost of acquisition of other railroads.

The individual divisions of the South Carolina Department of Commerce - Division of Public Railways are funds of the State of South Carolina established per various sections of the Code of Laws of South Carolina. The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the South Carolina Department of Commerce - Division of Public Railways and do not include any other funds of the State of South Carolina.

The South Carolina Department of Commerce - Division of Public Railways consists of three separate divisions: the Port Utilities Commission and Port Terminal Railroad, the East Cooper and Berkeley Railroad, and the Tangent Transportation Company. The functions of each of the divisions are outlined as follows:

a. Port Utilities Commission and Port Terminal Railroad (PUC-PTR) has the responsibility of operation of the railroad yard at Charleston Harbor. Switching activity between privately owned railroad lines and seagoing vessels is its primary operation and revenue source.

b. Operation and maintenance of the railroad line constructed in Berkeley County, South Carolina, is the primary responsibility of the East Cooper and Berkeley Railroad (ECBR). The railroad was constructed with financing by Amoco Chemicals Corporation, its major customer. This came after requests from the Commission and the State Budget and Control

Board to service the east side of the Cooper River north of Charleston, South Carolina were denied by the common carrier railroads operating in South Carolina.

c. Tangent Transportation Company (TTC) was formed to acquire and operate the Yemassee to Port Royal railroad. On April 16, 1985, a notice was filed by the Tangent Transportation Company with the Surface Transportation Board for a modified rail certificate of public convenience and necessity under 49 C.F.R. 1150, subpart C, to operate a line of trackage from Yemassee to Port Royal in Beaufort County, South Carolina, called the Port Royal Railroad. This line of railroad had formerly been owned and operated by Seaboard System Railroad, Inc. South Carolina State Ports Authority purchased the line and negotiated with Tangent Transportation Company, a wholly-owned subsidiary of the South Carolina Department of Commerce - Division of Public Railways, to operate the line. Tangent Transportation Company commenced operation on May 14, 1985. Effective November 30, 2003 TTC ceased operations and all assets were distributed. See Note 17 regarding this.

NOTE 2 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

Basis of Accounting

The Division adheres to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

The South Carolina Department of Commerce - Division of Public Railways is required by State Law (58-19-10) to maintain separate accounting of its three divisions: the Port Utilities Commission and Port Terminal Railroad, the East Cooper and Berkeley Railroad, and the Tangent Transportation Company. Presented here are the financial statements of the divisions of the South Carolina Department of Commerce - Division of Public Railways.

The Division utilizes the accrual basis of accounting. Under the accrual basis of governmental accounting for enterprise funds, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable. Net assets are segregated into invested in capital assets, restricted and unrestricted components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounting principles utilized by the Division are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. The Division has elected to apply all Financial Accounting Standards Board statements and interpretations issued prior to December 31, 1989 unless they conflict with GASB pronouncements.

Operating income includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets.

Fund Accounting

The Division uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions or limitations. Separate accounts are maintained for each fund however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions have been reported by fund type.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The Division reports activities of the enterprise "fund type" under the proprietary fund category.

The Division's operations are classified as enterprise fund types within the proprietary fund classification. Enterprise funds account for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

Property, Plant, and Equipment

Except for track and roadway, capital assets with a unit acquisition cost in excess of $5,000 are capitalized and depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Estimated useful lives are as follows:

Buildings	20 - 40 years
Depreciable Road	75 years
Equipment	3-25 years
Leasehold Improvements	5 years

Track and roadway are capitalized at cost and depreciation is not recognized. Replacements and repairs are expensed in the period that costs are incurred. Betterments to track and roadway are capitalized.

Leasehold improvements are capitalized and amortized over the remaining life of the lease.

See Note 5 regarding valuation of property donated by the Ports Authority and exchanged with the Ports Authority.

Servicing Rights

The servicing rights asset is being amortized.

Inventories

Inventories consisting of materials and supplies are stated at the lower of cost or market using the weighted average method.

Policy for Uncollectible Accounts

At year-end management reviews past due accounts receivable and recognizes bad debt expense for those accounts determined to be uncollectible. This method is not in conformity with generally accepted accounting principles, which requires accounts receivable to be reported at net realizable value using an allowance for uncollectible accounts. However based on the Divisions collection history, the results from using the direct write-off method are not materially different from the allowance method.

Inter-division Transactions and Balances

Transactions among the three divisions of the Division of Public Railways have been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between PUC-PTR and ECBR. Overhead of the two Divisions is split, 56% to ECBR and 44% to PUC-PTR. Overhead expense includes superintendence, general administrative, and insurance. PUC-PTR charges TTC a management fee instead of allocating direct costs. See Note 10 regarding eliminations and management fees.

Statement of Cash Flows

For purposes of this statement the Division considers deposits with State of South Carolina cash management pool to be cash equivalents because they are readily convertible to cash with an insignificant risk of loss in value.

Cash and Cash Equivalents

The amounts shown in the financial statements as "*cash and cash equivalents*" represent cash on deposit with the State Treasurer and cash invested in various investments by the State Treasurer as part of the State's internal cash management pool.

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Most State agencies participate in the State's internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents included investments in short-term, highly liquid securities having an original maturity of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each agency's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Agencies record and report their deposits in the general deposit account at cost. However, agencies report their deposits in the special deposit accounts at fair value. Investments in the pool are recorded at fair value. Interest earned by the agencys' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. The divisions only have special deposit accounts. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency's percentage of ownership in the pool.

Although the State's internal cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 3.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS

All deposits of the Division are under the control of the State Treasurer who, by law, has sole authority for investing state funds.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At December 31, 2003, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTE 4 - RECEIVABLE - MARLBORO COUNTY

In 1997 PUC-PTR agreed to assist Marlboro County with the upgrading of Pee Dee River Railroad. The assistance was to be in the form of project management and the purchase of an $892,000 revenue bond dated March 20, 1997, which proceeds were to be used in the upgrade of the Pee Dee River Railroad. In 2003 Marlboro County repaid the remaining balance of the revenue bond.

Total principal received in 2003 from Marlboro County was $273,889 and interest received was $4,786.

NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost with the exception of certain assets received from the State Ports Authority. $451,136 of assets acquired by the Division from the South Carolina State Ports Authority during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to the State Ports Authority, less accumulated depreciation at the time of organization. The accumulated depreciation on these assets, since acquisition by the Division, at December 31, 2003 is $30,261. Also, in 1997 the PUC-PTR Division exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on PUC-PTR's books at book value of assets as recorded by the State Ports Authority. Amounts recorded included track and land improvements of $1,324,462 and an engine house in the amount of $1,182,402. Depreciation is computed on the straight-line method. A summary of property, plant, and equipment by division is as follows:

PUC-PTR

CAPITAL ASSETS

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Land	$ 4,119,749	$ -	$ -	$ -	$ 4,119,749
Land improvements	2,636,341	-	11,438	-	2,647,779
Buildings	2,208,642	-	138,391	-	2,347,033
Machinery and equipment	2,619,556	117,740	68,890	(232,978)	2,573,208
Non-depreciable road	3,841,729	-	-	-	3,841,729
Leasehold improvements	205,083	-	-	-	205,083
Projects under construction	-	-	2,234	-	2,234
Total	$ 15,631,100	$ 117,740	$ 220,953	$ (232,978)	$ 15,736,815

ACCUMULATED DEPRECIATION

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Buildings	$ 195,969	$ -	$ 56,290	$ -	$ 252,259
Machinery and equipment	1,545,855	85,191	233,998	(187,918)	1,677,126
Leasehold improvements	177,432	-	5,152	-	182,584
Total	$ 1,919,256	$ 85,191	$ 295,440	$ (187,919)	$ 2,111,969

TANGENT

CAPITAL ASSETS

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Land improvements	$ 14,744	$ (14,744)	$ -	$ -	$ -
Buildings	170,669	(170,669)	-	-	-
Machinery and equipment	117,740	(117,740)	-	-	-
Non-depreciable road	545,228	(545,228)	-	-	-
Total	$ 848,381	$ (848,381)	$ -	$ -	$ -

ACCUMULATED DEPRECIATION

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Buildings	$ 25,331	$ (29,189)	$ 3,858	$ -	$ -
Machinery and equipment	85,191	(85,191)	-	-	-
Total	$ 110,522	$ (114,380)	$ 3,858	$ -	$ -

ECBR

CAPITAL ASSETS

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Land	$ 426,419	$ -	$ -	$ -	$ 426,419
Land improvements	1,706,587	-	-	-	1,706,587
Buildings	833,004	-	13,268	-	846,272
Machinery and equipment	884,911	-	-	(63,825)	821,086
Depreciable road	833,591	-	-	-	833,591
Non-depreciable road	2,628,369	-	-	-	2,628,369
Projects under construction	34,520	-	20,239	-	54,759
Total	$ 7,347,401	$ -	$ 33,507	$ (63,825)	$ 7,317,083

ACCUMULATED DEPRECIATION

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Buildings	$ 636,748	$ -	$ 13,208	$ -	$ 649,956
Depreciable road	268,601	-	11,115	-	279,716
Machinery and equipment	587,024	-	9,955	(53,613)	543,366
Total	$ 1,492,373	$ -	$ 34,278	$ (53,613)	$ 1,473,038

COMBINED

CAPITAL ASSETS

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Land	$ 4,546,168	$ -	$ -	$	$ 4,546,168
Land improvements	4,357,672	(14,744)	11,438	-	4,354,366
Buildings	3,212,315	(170,669)	151,659	-	3,193,305
Machinery and equipment	3,622,207	-	68,890	(296,803)	3,394,294
Depreciable road	765,509	-	-	-	765,509
Non-depreciable road	7,083,408	(545,228)	-	-	6,538,180
Leasehold improvements	205,083	-	-	-	205,083
Projects under construction	34,520	-	22,473	-	56,993
Total	$ 23,826,882	$ (730,641)	$ 254,460	$ (296,803)	$ 23,053,898

ACCUMULATED DEPRECIATION

	Balance 12/31/02	Transfer In (Out)	Additions	Deletions	Balance 12/31/03
Buildings	$ 858,048	$ (29,189)	$ 73,356	$ -	$ 902,215
Depreciable road	268,601	-	11,115	-	279,716
Machinery and equipment	2,218,070	-	243,953	(241,531)	2,220,492
Leasehold improvements	177,432	-	5,152	-	182,584
Total	$ 3,522,151	$ (29,189)	$ 333,576	$ (241,531)	$ 3,585,007

Depreciation expense for the period by division and in total was as follows: PUC-PTR $295,440, ECBR $34,278, TTC $3,858, Total - $333,576. Effective November 30, 2003 Tangent ceased doing business and upon the terms of the agreement with The South Carolina Ports Authority buildings, track and land improvements with a book value of $701,452 were transferred to the Ports Authority. Equipment with a book value of $32,549 were transferred to PUC-PTR. The transfers are shown on the statement of revenues, expenses and changes in net assets. See Note 17 regarding Tangents cessation of operations.

NOTE 6 - ACCRUED ANNUAL LEAVE

Non-union employees are entitled to accrue and carry forward at calendar year end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. Employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

Union employees can earn up to 25 days annual vacation leave per year, but do not earn any sick leave. Union employees do not carry forward any unused vacation leave. Upon termination of employment, union employees are entitled to be paid for accumulated unused annual vacation leave up to 25 days. Union employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

The Division calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments is recorded as a current liability. The net change in the liability is recorded in the current year in the applicable operating department.

NOTE 7 - DEFERRED REVENUE/OPERATING LEASES/NONOPERATING RENTAL REVENUE

Effective March 4, 1994, PUC-PTR began leasing land and improvements in Spartanburg County, South Carolina for $200,000 a year. The lease is for twenty years with two ten-year options to renew. During the lease term the lessee has the right to purchase the land and improvements for PUC-PTR's cost not to exceed $5,000,000. The rent is paid at the beginning of each year's anniversary for one year effective March 4, 1994 and will be adjusted annually based on 90-day treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of $2,000,000, which is why treasury bill rates will be used to determine changes in the annual rent. The Divisions total investment in this project ended up being $4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 2002 was $200,000 and at March 4, 2003 was also $200,000. The land is used as a railroad spur to the BMW plant. During 2003, $200,000 was recognized as nonoperating rental revenue and $33,333 was deferred revenue based on the terms of this agreement. Also effective March 4, 1996, the Division began receiving revenue on certain car hauls out of the BMW plant by Norfolk Southern. This amounted to $237,610 in 2003 and is included in other income, net, nonoperating revenue. See Note 9 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of $251,786 for 2003. Effective May 30, 1995, this lease was renewed. The lease is a supplemental lease to preexisting 1980 and 1986 leases. The lease expires on February 16, 2015, with automatic one-year renewals unless either party serves the other with at least twelve months notice. Under the supplemental lease each year's rent will be adjusted to correspond to the change in the national consumer price index ("CPI") for the previous year. The cost of land and non-depreciable track being leased to the North Charleston Terminal Company is $655,881.

PUC-PTR rents locomotives to Amoco, Inc. on a monthly basis. Rent was $6,350 a month for 2003. Revenue for the current year for the rentals to Amoco is $76,200 and is included in nonoperating rental revenue. See Note 10 regarding interdivision rental income.

Minimum rentals on non-cancelable leases based on current year rates are as follows:

2004	$ 451,315
2005	451,315
2006	451,315
2007	451,315
2008	451,315
2009-2013	2,256,575
2014-2015	316,062
Total	$ 4,892,212

NOTE 8 - NOTE PAYABLE AND COMPENSATED ABSENCES

On June 30, 1990, PUC-PTR borrowed from the South Carolina State Ports Authority $35,000 for certain landscaping improvements to be made at its office building being leased from the Ports Authority. The note is to be paid over 20 years at 6% interest rate. Monthly payments were $251 including interest. The outstanding balance $16,834 was paid off in August 2003. Interest of $659 and principal of $18,137 was paid in 2003. $369 of interest was charged to ECBR, and $290 charged to PUC-PTR and is shown as a nonoperating expense. Interest expense is allocated between PUC-PTR (44%) and ECBR (56%) according to the operating agreement as explained in Note 12. The principal is paid entirely by PUC-PTR.

The following is a summary of changes in notes payable and compensated absences for the year ended December 31, 2003.

	Jan 1, 2003	Increase	Decrease	Dec 31, 2003	Due Within One Year
Note Payable	$ 18,137	$ -	$ (18,137)	$ -	$ -
Compensated Absences:					
PUC-PTR	$ 54,789	$ 26,384	$ (16,652)	$ 64,521	$ 64,521
ECBR	69,732	26,326	(13,940)	82,118	82,118
TTC	40,781	-	(40,781)	-	-
Total	$ 165,302	$ 52,710	$ (71,373)	$ 146,639	$ 146,639

NOTE 9 - OTHER INCOME, NET

The category under "Nonoperating revenues (expenses)" entitled "Other income, net" is used to report miscellaneous income not related to the primary operating functions of each division. It consists primarily of fees received for sale of supplies, insurance proceeds, permits, lease, processing (clerical) services and contracted services. See Note 7 regarding $237,610 of income from the BMW plant. See Note 12 regarding $88,831 of offset charges received from the State Ports Authority. A breakdown by division of "Other income, net" for the year ended December 31, 2003, is as follows:

	PUC-PTR	TTC	ECBR	TOTAL
Sale of supplies, leases and contractual services:				
Between divisions	$ -	$ -	$ -	$ -
With outside parties	351,786	731	75,058	427,575
Total	$ 351,786	$ 731	$ 75,058	$ 427,575

NOTE 10 - INTER-DIVISION ELIMINATIONS

The following transactions between the separate divisions have been eliminated in the combined financial statements as follows:

BALANCE SHEET
DECEMBER 31, 2003

Descriptions	PUC-PTR	TTC	ECBR
Accounts receivable from other divisions	$ (149,100)	$ -	$ (19,646)
Accounts payable to other divisions	19,646	-	149,100
	$ (129,454)	$ -	$ 129,454

(REVENUES) AND EXPENSES
YEAR ENDED DECEMBER 31, 2003

Descriptions	PUC-PTR	TTC	ECBR
Equipment rental	(22,000)	22,000	-
Management fee	(56,250)	56,250	-
Totals	$ (78,250)	$ 78,250	$ -

PUC-PTR rented a locomotive with a rental of $2,000 per month for eleven months.

PUC-PTR charged Tangent Transportation Company a management fee for administrative services at the Division office incurred by PUC-PTR on behalf of Tangent. The fee was $7,500 per month for January to May 2003 and $3,750 a month for June to October 2003. The total management fee incurred by TTC for the year ended December 31, 2003 was $56,250, which was charged to management fees and included in general railway operating expenses. PUC-PTR reports the revenue under non-operating revenues as management fees.

Other amounts in accounts payable for ECBR and PUC-PTR are normal monthly amounts initially paid by one division that will be reimbursed by the division receiving the goods/services.

NOTE 11 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued

CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Division are covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee’s average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor’s benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee’s annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.7 percent, which included a 3.15 percent surcharge to fund retiree health and dental insurance coverage. The rate for the first six months of 2003 (effective July 1, 2002) was 10.4 percent, which included a 2.85 percent surcharge. The Division’s actual contributions to the SCRS for the fiscal year ended

December 31, 2003 were $112,632, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for 2002 were $114,154 and for 2001 were $110,975. Also, the Division paid employer group-life insurance contributions of $2,268 in the current fiscal year at the rate of .15 percent of compensation.

The contributions by each division is as follows:

	PUC-PTR	TTC	ECBR	Total
Retirement Plan				
Employer	$ 55,804	$ 2,792	$ 54,036	$ 112,632
Group Life				
Employer	1,109	55	1,074	2,238

The amounts paid by the South Carolina Department of Commerce - Division of Public Railways for pension and group-life benefits are recorded in the appropriate operating department corresponding to the employee for whom the contributions are made.

Article X, Section 16, of the South Carolina Constitution requires that all State operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the Division's liability under the plan is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Division's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Division recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

The General Assembly amended Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2001, with some provision effective January 1, 2001. The amendment enacted the Teacher and

Employee Retention Incentive Program, reducing from thirty to twenty-eight years of credible service required to retire at any age without penalty and made other changes to the South Carolina Retirement System.

The Division contributed $336,586 this year to the U.S. Railroad Retirement System, which covers all employees. PUC-PTR contributed $167,126; ECBR, $160,764; and TTC, $8,696. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2003, wages up to $87,000 were funded at 6.2 percent by the Division to meet Tier 1 funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to $64,500 at 16.1 percent to meet Tier II funding requirements. Employees matched the Division's Tier 1 contribution, but paid only 4.9 percent versus the Division's 16.1 percent Tier II rate on wages up to $64,500 for the maximum Tier II employee liability of $3,160.

The U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts, administers this plan.

Data concerning the actuarial status of the U.S. Railroad Retirement System as related to the Division is not available. The Division is not liable for any unfunded costs associated with the plan and recognized no contingent liability for such cost.

Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Division are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirement, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through applicable revenue sources for the Division’s active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable fund sources of the Division for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 26,000 State retirees meet these eligibility requirements.

The South Carolina Department of Commerce - Division of Public Railways recorded employer contributions applicable to these benefits for active employees in the amount of $318,306 for the year ended December 31, 2003. Contributions by division are as follows: PUC-PTR, $169,132; ECBR, $142,698; and TTC, $6,476. Contributions to these plans are recorded in the appropriate operating department corresponding to the employee for whom the contributions are made.

As discussed above, the Division paid $45,925 applicable to the surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Contributions by Division is as follows: PUC-PTR $22,155; ECBR $21,382; and TTC $1,194.

Information regarding the cost of insurance benefits applicable to the Division retirees is not available. By State law, the Division has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Division have elected to participate. The multiple-employer plans, created under Internal Revenue Service code sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina Compensation deferred under the plans is placed in trust for the contributing employee. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw the current value of their contributions prior to termination if they meet requirements specified by the applicable plan. The State has no liability for losses under the plans.

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

The Tangent Transportation Company division of the Division had a contractual agreement to receive from the South Carolina State Ports Authority a management fee when monthly freight charges revenue is insufficient to cover monthly expenses. The Company in 2002 and 2003 billed the Ports Authority for monthly deficits incurred by the rail freight division of the Company. In June 2003 the Ports Authority agreed to reimburse the Company for monthly deficits incurred from 2001 to April 2003 in the amount of $230,000 of which $146,000 was allocated to periods prior to January 1, 2003. In addition in 2003 the Ports Authority paid $50,000 to reimburse the Company for deficits incurred in 2003. In 2003 total payments from the Ports Authority of $134,000 were included in deficit reimbursements. The Company also retained $46,560 certain lease and right of way payments that in 2002 and 2003 had been collected and recorded as an accounts payable to the Ports Authority. These amounts were recorded as deficit reimbursements in the 2003. The total of $180,450 is shown as other income.

PUC-PTR allocated to ECBR $42,052 of depreciation expense as part of the administrative overhead expense allocation between the two divisions explained in Note 2. This is shown as depreciation expense under general railway operating expenses of ECBR.

The Ports Authority pays PUC-PTR monthly offset charges. In 1988, the S.C. State Ports Authority took possession of a certain area of trackage at the Port Terminal Railroad which caused PUC-PTR to incur additional operating costs. The Ports Authority continues to pay PUC-PTR for the additional costs, which equals the initial annual base amount of $58,615 adjusted for changes in the consumer price index. The amount paid to PUC-PTR was $88,831 in 2003 and is included in other non-operating revenues. See Note 9 regarding other income, net.

During 2003, PUC-PTR incurred $103,975 of costs related to industrial development in South Carolina, as directed by the SC Department of Commerce. These invoices were not related to the operations of PUC-PTR and are classified as nonoperating expense on the statement of revenues, expenses, and changes in net assets.

As described in Note 10, the Divisions provide each other with certain services.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement and insurance plan administration from various divisions of the State Budget and Control Board. The Division had financial transactions with various State agencies during the year. Payments made in 2003 to the State Budget and Control Board were primarily for insurance coverage.

NOTE 13 - <u>OPERATING LEASES</u>

The Division's Port Utilities Commission and Port Terminal Railroad Division, and the South Carolina State Ports Authority entered into an agreement, effective July 1, 1976, allowing the South Carolina Department of Commerce - Division of Public Railways to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The Division is now occupying these premises on a month-to-month lease. The monthly rental charge is $300. The Division incurred $3,600 for rental of this building in 2003. The Division is required to carry insurance for property damage and to maintain and repair the leased building.

The only other lease payment is $1,755 per year by ECBR to the U.S. Department of Agriculture for right of way for the railroad on National Forest Land. This lease is for an indefinite term.

Total operating lease expense in 2003 was $5,355. Minimum future payments of the Division for the lease with the indefinite terms as of December 31, 2003 are as follows:

	ECBR
2004	$ 1,755
2005	1,755
2006	1,755
2007	1,755
2008	1,755
Totals	$ 8,775

NOTE 15 - RISK MANAGEMENT

The Division is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Division. Settled claims have not exceeded this coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The Division pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered losses sustained during the policy period in accord with the insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and

2. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the states self-insured plan. All of the other coverages listed above are through the applicable state self-insured plan except dependent and optional life premiums which are remitted to commercial carriers.

The Divisions and other entities pay premiums to the States Insurance Reserve Fund (IRF) which issues policies, accumulate assets to cover the risks of loss and pays claims incurred for covered losses related to the following Division assets, activities, and/or events.

1. Real property, its contents and other equipment - Coverage per loss for real property is based on current valuation with a $250 deductible. Eighty percent of each loss is covered by the IRF. Equipment losses are subject to a $500, or two percent deductible, whichever is less.

2. Motor vehicles - Coverage is up to $1,000,000 per loss with a $200 deductible.

3. Torts

The IRF is a self insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. The IRF's rates are determined actuarially.

State agencies are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The Division purchases insurance, which covers all divisions, through private carriers for liability and property loss on road and locomotive assets, and employee fidelity bond insurance coverage for all employees to cover losses of up to $100,000 arising from theft or misappropriations. Management believes based on exposure and likelihood of loss that this coverage is sufficient.

The Division has purchased insurance, which covers all divisions, from a private carrier for liability under the Federal Employers Liability Act (FELA), which is similar to workmans compensation insurance and covers all employees. The Division has elected to retain the risk of loss on this coverage for up to the first $25,000 of costs per claim. Management has elected to retain this amount of risk because it feels that it is more economical than paying additional premiums for increased coverage. In the current year, no expenses were incurred on claims under the policy. Also a tax is paid to the U.S. Railroad Retirement System to cover all the Division employees for unemployment benefits.

The Division has recorded insurance premium expenses in the applicable operating department corresponding to the employees for whom contributions are made or in insurance expense under administrative costs.

The Division's management believes risk of loss from business interruption is a remote likelihood and does not maintain insurance for this risk.

The Division did not incur any significant losses in 2003 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 16 - GASB 31 ADJUSTMENTS

Effective January 1, 1998, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal (and external) investment pools, this statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. The unrealized gains included in cash and cash equivalents at December 31, 2003, was $9,250 for PUC-PTR and $3,712 for ECBR.

NOTE 17 - TANGENT TRANSPORTATION – CESSATION OF OPERATIONS

Due to declining traffic on the Port Royal railroad, the Company elected to terminate service effective November 30, 2003. Notice was filed Federal Railroad Administration of this termination of service and the effective date of November 30, 2003. Since the railroad was being leased from the South Carolina State Ports Authority, all building, land improvements and track were transferred back to the Ports Authority. The book value of these assets, $701,452, is shown as a transfer out in the statement of revenues, expenses and changes in net assets. The remaining assets, having a book value of $489,562, were transferred to PUC-PTR, and is also shown as a transfer in the statement of revenues, expenses and changes in net assets. During 2002 and 2003 Tangent recovered operating deficits from the South Carolina State Ports Authority. See Notes 4 and 12 also regarding the above.

NOTE 18 – ENTERPRISE FUND INFORMATION

Charges for services	$ 7,582,772
Operating grant and contributions	86,465
Less: expenses	(4,285,831)
Net program revenue	3,383,406
Transfers	(701,452)
Change in net assets	2,681,954
Net assets - beginning	33,447,703
Net assets - ending	$ 36,129,657

This information is included only for the State of South Carolina GAAP reporting purposes and includes terminology and classifications which are not consistent with the financial statements.